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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2003

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with regulation 7.12 of the Financial Regulations and Rules of the United Nations, the Advisory Committee on Administrative and Budgetary Questions received copies (in advance form) of the financial reports, audited financial statements and reports of the Board of Auditors to the General Assembly for 16 organizations of the United Nations common system for the biennium ended 31 December 2003. In addition, the Committee had before it the report on the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2003. A list of the organizations audited by the Board appears in annex I to the present report. The report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period from 1 July 2002 to 30 June 2003 (A/58/5, vol. II) was considered by the Advisory Committee at its session in February and March 2004 (see A/58/759). The audited accounts of the World Food Programme (WFP) for the biennium 2002-2003, which are not covered by the Board of Auditors, are currently under consideration by the Committee. Its comments and observations will be communicated to the Executive Board of WFP through its Executive Director. The Committee expects to revert to the observations and recommendations of the Board of Auditors as well as the other issues discussed in its reports on the financial statements of funds and programmes during the Committee's review of the biennial budgets of the organizations for the next fiscal period.

2. The observations and comments of the Advisory Committee on the report of the Board of Auditors on the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2003 will be submitted separately to the General Assembly at its fifty-ninth session in a report that will include the Committee's

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recommendations on the report of the United Nations Joint Staff Pension Board (A/59/9). The Committee will consider the audit reports of the International Criminal Tribunal for Rwanda (A/59/5/Add.11) and the International Tribunal for the Former Yugoslavia (A/59/5/Add.12) in the context of its review of the reports of the Secretary-General on biennial budgeting at the International Tribunals (A/59/139). The Board of Auditors also submitted to the Committee its report on the capital master plan for the biennium ended 31 December 2003 (A/59/161). The Committee will consider that report in the context of the report of the Secretary-General on the capital master plan.

3. The Advisory Committee had advance copies of the concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-ninth session (A/59/162) and advance copies of the reports of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations, the United Nations funds and programmes and the International Tribunals for Rwanda and the Former Yugoslavia for the financial period ended 31 December 2003 (A/59/318 and Add.1). The reports include replies of the administration to the observations of the Board of Auditors, which in some cases were included in the Board's final report, as well as additional information on measures taken to implement the recommendations of the Board. In most cases the administrations have concurred with the recommendations of the Board and have proceeded as and where appropriate to implement them. In instances where the administrations do not agree with the recommendations of the Board or are unable to begin implementation, they have provided an explanation.

4. During its consideration of the reports, the Advisory Committee met with the members of the Audit Operations Committee, who provided additional information and clarification.

A. General

5. **The Advisory Committee acknowledges the continued improvement in the structural presentation of the Board's reports as well as the greater clarity and transparency of the Board's observations and recommendations on highly technical issues.** The reports include, as in the past, a summary of main findings together with a short overview of the recommendations made. The Board has also commented on the status of the implementation of previous recommendations in the main body of the individual reports, where applicable, in line with the suggestions made by the Committee.

6. The reports of the Board of Auditors included observations and recommendations on a number of cross-cutting matters for various United Nations organizations, such as presentation of financial statements; non-expendable equipment; liabilities for annual leave, end of service and post-retirement benefits; training; governance review; results-based management and budgeting; internal oversight; treasury and investment management; consultants, experts and temporary assistance; procurement; human resources management and payroll systems; and cases of fraud and presumptive fraud. **The Advisory Committee welcomes this audit approach of common themes across United Nations entities, while noting that not all recommendations apply equally to all entities and that, in some**

cases, some recommendations may not be applicable to some entities or may have already been partly implemented by some. The Committee believes that further examination of cross-cutting issues may result in further streamlining of the reports of the Board, facilitating their consideration by the General Assembly.

7. The Advisory Committee was informed that the Board had spent more than 2,225 person weeks on audits during the audit cycle for 2002-2003. This included the peacekeeping audits but excluded senior management time, general coordination, assistance and training. During the audit period, the Board issued more than 215 management letters to organizations on deficiencies in programme and financial management, which the Board considered to be, in some cases, of lesser importance and therefore not necessary to be included in its reports to the General Assembly. **The Advisory Committee encourages the Board to continue to examine the scope and the number of the issues that should be addressed to the administration in management letters, with the view to further streamlining the audit reports submitted to the General Assembly.**

8. The Advisory Committee was informed of the progress made by organizations in implementing the Board's previous recommendations. For the biennium 2000-2001, 171 (46 per cent) of the 376 recommendations were fully implemented and 177 (47 per cent) were in the process of being implemented, while only 28 (7 per cent) had not been implemented by May 2004.

9. The Advisory Committee notes that, although the statistical approach followed to monitor the actions taken by organizations in regard to implementation of the Board's recommendations shows some progress, it may be misleading in the case of some organizations. There is a need to refine the criteria to evaluate results of the implementation of the Board's recommendations. Moreover, the Committee observes that in some instances the recommendations of the Board are presented in very general terms, are sometimes reiterations of previous recommendations or, in several cases, are clusters of various recommendations. **The Advisory Committee encourages the Board to continue to monitor progress made by organizations in refining the criteria and systems to evaluate results of its recommendations as well as in formulating its recommendations so that organizations implement them within a predetermined time frame. In this connection, it would be helpful if new recommendations of the Board could be separately identified.**

10. **The Advisory Committee stresses the need for full and timely implementation of the recommendations of the Board and other oversight bodies. The Committee recommends that the United Nations and its funds and programmes take concrete steps to make significant progress in implementing the recommendations of their oversight bodies and, as necessary, indicate to their governing bodies the constraints that hamper full implementation of the recommendations.**

11. **In the view of the Advisory Committee, a statistical approach may not be sufficient to monitor the follow-up of the implementation of oversight bodies in many instances. From its consideration of the reports of the Board and the exchange of views with the Audit Operations Committee, the Committee concludes that there is still a need for further efforts to develop a strong culture of accountability within the United Nations and its funds and programmes. The efficient management of the United Nations and its funds and programmes**

requires that the implementation of the Board's recommendations become an integral part of the work plans, activities and processes of the organizational units concerned, while tools to measure and assess the impact of the Board's recommendations must also be developed. The Committee believes that the administrations should continue to introduce and strengthen effective monitoring tools as well as to assign responsibility at the highest level of their management structure for implementation and follow-up of the Board's recommendations.

12. **The Advisory Committee encourages the Board of Auditors to continue its coordination and collaboration with other oversight bodies, including the Office of Internal Oversight Services, internal audit services of the United Nations funds and programmes and the Joint Inspection Unit, in order to avoid duplication of efforts and ensure optimal use of audit resources. The Committee trusts that this approach will result in better complementarity of efforts and wider and deeper coverage of audit areas.**

B. United Nations

13. The main recommendations of the Board on the accounts of the United Nations for the financial period ended 31 December 2003 are indicated in its report (A/59/5, vol. I, chap. II, para. 15). In the paragraphs below, the Advisory Committee highlights a number of key issues concerning the United Nations, and in section C below it comments on specific matters concerning United Nations funds and programmes.

Trust funds

14. Sixty-three trust funds of the United Nations, with combined reserves and fund balances of $54.1 million as at 31 December 2003, did not show any expenditure for the biennium 2002-2003 except for transactions pertaining to the investment and related accounts. The Board of Auditors reiterated its recommendation for previous bienniums that the Administration should take action to review trust funds whose purposes have long been attained in order to identify and close those that are inactive and no longer required (A/59/5, vol. I, chap. II, para. 15 (c)). The Committee understands that the solution for this long-outstanding issue involves steps to be taken by Member States, conveying certain concrete instructions to the Administration with regard to monies in inactive and no longer required trust funds. **The Committee expects the Secretariat to take more proactive measures in the consolidation and closure of these inactive trust funds. Member States should be advised on a regular basis, and prior to the closing of the account for the biennium, of the status of unutilized balances that may no longer be required. A cut-off period could be established for returning unutilized balances to donors or for channelling balances to finance other activities as agreed with donors.** The Committee recalls that, with regard to peacekeeping trust funds, noticeable progress was made by the Department of Peacekeeping Operations, with the collaboration of the relevant Member States, to close a number of inactive trust funds (see A/58/5, vol. II, chap. II, paras. 41-45). **The Committee believes that other units of the Secretariat could learn from the experience of the Department of Peacekeeping Operations.**

End-of-service liabilities

15. For the United Nations, the estimated liabilities for after-service health insurance accrued annual leave and termination benefits amounted to $1.7 billion as at 31 December 2003. The Board observed that the United Nations has not specifically recognized liabilities for after-service health insurance costs or the liabilities for other types of end-of-service payments. The Board recommended that the United Nations review the funding mechanism for end-of-service and post-retirement benefits liabilities (A/59/5, vol. I, chap. II., paras. 46 and 47). The Committee acknowledges the importance of the issue, which has been addressed by the Board in previous bienniums. The Committee was informed that progress has been made in some funds and programmes (see para. 38 below). The Committee was informed that future liabilities for the United Nations and its funds and programmes exceeding $3 billion were unfunded at 31 December 2003. A breakdown of the information provided to the Committee is included in annex II to the present report. **In the Committee's view, the matter deserves serious consideration by the administrations of the organizations in an expeditious and coordinated manner.** The Committee recalls that in its resolution 58/249 of 23 December 2003, the General Assembly requested the Secretary-General to report to the Assembly on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure progress towards fully funding such liabilities. The Committee will revert to the matter during its consideration of the report of the Secretary-General on this subject.

Information and communications technology

16. The Advisory Committee was informed that the Board of Auditors continued to examine matters related to information and communications technology (ICT) throughout the Secretariat and in some funds and programmes (see also paras. 40-43 below). The Board reviewed ICT strategies in 23 entities with direct ICT expenditures in excess of $700 million over two years (see A/59/5, vol. I, chap. II, paras. 73-154). The Board recognized that there have been recent initiatives to improve ICT coordination but pointed out that a comprehensive, United Nations-wide initiative should be undertaken to coordinate efforts on ICT strategy and developments (see A/59/162, para. 118). **The Advisory Committee endorses this view.**

17. The Board of Auditors has addressed several issues that have been the concern of the Advisory Committee in recent years. For example, during its consideration of the United Nations regular budget for the biennium 2004-2005, the Committee was concerned with issues such as governance of ICT, cost-benefit analyses of IT applications and the need to establish a portfolio of IT assets. The Board has noted that the United Nations has no agreed model of what to include under "the cost of ICT". In the absence of such definition, the Secretariat does not have a comprehensive view of the total cost of ICT. It cannot compare such costs internally or with other points of reference. The Committee notes that the ICT network, created recently as part of the United Nations System Chief Executives Board for Coordination to coordinate ICT activities across the United Nations system, has recognized the problem, but has yet to provide a solution (A/59/5, vol. I, chap. II, para. 87). The Committee is aware of the importance of costing of ITC for benchmarking and financial analysis as well as for planning and budgeting. **The Committee endorses the Board's recommendation that the United Nations**

should adopt and implement a uniform methodology for determining the total cost of ICT, with a view to improving the decision-making process (A/59/5, vol. I, chap. II, para. 89). In paragraph 41 below, the Committee comments on specific matters related to coordination of ICT in United Nations funds and programmes audited by the Board.

Budget recosting methodology

18. Pursuant to General Assembly resolution 58/270 of 23 December 2003, the Board of Auditors examined the recosting methodology of the United Nations regular budget. Recosting of the budget entails the revision to budgeted estimates on the basis of adjustments to costing parameters. These adjustments would take into account currency fluctuations, inflation and changes in staff costs and vacancies. The Board considered that the budget methodology currently in place at the United Nations was reasonable (A/59/5, vol. I, chap. II, paras. 155-171).

19. Costs arising from changes in vacancy currency fluctuations and inflation may entail additional expenditures of the budget that need to be accommodated. These additional expenditures, which are not currently covered by either the contingency fund or a specific section in the programme budget, are appropriated and assessed every year. In order to absorb the additional expenditures without having to go through multiple assessments on Member States, the Board recommended that the Administration resubmit to the General Assembly its proposal for the establishment of an operational reserve (A/59/5, vol. I, chap. II, paras. 172-175). Subject to any decisions reached by the Assembly at the time of its consideration of the report of the Board of Auditors, the Committee intends to revert to the issue of the establishment of an operational reserve and examine the proposal of the Secretary-General in the context of its consideration of the proposed programme budget for the biennium 2006-2007.

Results-based budgeting and programme management

20. In the past, the Advisory Committee has welcomed the increasing practice of the Board of Auditors to expand performance audit. The Committee has encouraged the Secretariat to continue to develop and improve performance measurement standards that could facilitate the task of the performance audit by the Board. In this connection, the Committee has encouraged the Board to pay particular attention to reported expenditures and their relationship to programme delivery (see, for example, A/55/487, para. 14). In its report (A/59/5, vol. I, chap. II, paras. 176-196), the Board discusses the link between financial accomplishments (budget compared to expenditures) and physical/technical accomplishments (in relation to targets with actual accomplishments), based on data on the programme performance of the United Nations for the biennium 2002-2003 (A/59/69). Overall, 99.89 per cent of the total appropriation was utilized for the biennium 2002-2003, whereas the average delivery of outputs for the biennium was 84 per cent. **The Committee concurs with the view that "raw" comparisons of such percentages do not provide meaningful information and that what is needed is further efforts to refine the results-based budget methodology, in particular performance indicators and measurements of expected accomplishments, in some departments to enable a linkage, where appropriate, of the financial and technical aspects of the programmes.**

Procurement

21. **The Advisory Committee endorses the recommendations of the Board on procurement planning contained in its report (A/59/5, vol. I, chap. II, para. 216). The Committee agrees with the Board that a well-developed procurement plan facilitates an efficient procurement process, reducing the frequency of small purchases, and results in cost and time savings. Implementation of the Board's findings in this area needs to be addressed as a matter of urgency.**

22. **The Advisory Committee welcomes the efforts by the Procurement Division to monitor the submissions of procurement plans by requisitioning offices to ensure the completeness and reliability of the data submitted (see A/59/5, vol. I, chap. II, para. 215).**

23. The Advisory Committee notes that the Procurement Division, in cooperation with the United Nations Office of Project Service and the Inter-Agency Procurement Service Office, started work to review the current vendor management systems utilized by all the organizations within the United Nations system, as well as those used by other entities in the private and public sector. **The Committee welcomes the Administration's intention to share the findings with other organizations of the United Nations system with the view to utilizing the outcome to develop a harmonized or common vendor programme management system (A/59/5, vol. I, chap. II, para. 225). The Committee has encouraged sharing the best practices and reforms in procurement that may be available in entities of the United Nations (see A/55/487, para. 13). With regard to developing a harmonized vendor programme management system, the Committee cautions that in order to attain this goal and avoid serious obstacles, proper analysis should be done first with regard to the compatibility and interaction of information systems used by agencies and other entities, as well as differences in the "coding" systems used in various vendor management systems.**

Training

24. In its review of the management of staff training, the Board of Auditors focused on the economy and efficiency of administrative processes. The pedagogical contents of training were not reviewed. The Board explained that this would have required specialized resources beyond the scope of the review. The Board found that priority and perspective conferred by senior management on training and staff development at the time of its review were generally adequate. Training managers and units provided instances of successful knowledge-sharing and delivery although they were often deficient in policy-setting and planning (A/59/5, vol. I, chap. II, paras. 245 and 246).

25. The Advisory Committee has commented extensively on weaknesses pertaining to staff training activities and programmes of the United Nations (see, for example, A/58/7, paras. VIII.32-VIII.33, and A/58/759, paras. 75-78). The Committee notes that the Board confirmed that the existing management information systems, whether computerized or not, and as applied to training expenditures, did not always provide sufficient data to lead to well-informed planning decisions and monitoring. Furthermore, the lack of a comprehensive database on training history of each staff member could lead to inaccurate identification and assessment of staff training needs (A/59/5, vol. I, chap. II, para. 247).

26. The Advisory Committee notes from the Board's report (A/59/5, vol. I, chap. III, para. 249 (e)) that, after the audit, the Human Resources Network of the High-Level Committee on Management endorsed an organizational learning framework aimed at sharing and developing training practices and tools system-wide. **The Committee trusts that this will lead to better inter-agency coordination and benchmarking and the application of consistent system-wide methods for developing and sharing materials or rosters of training providers among entities in the United Nations.**

27. The Advisory Committee has been concerned about the inadequacy of evaluation systems for monitoring the efficiency and effectiveness of training programmes and the fact that individual staff members may be receiving multiple training courses that may not be related to their area of responsibility. The Committee has indicated the need to assess whether or not training programmes meet individual and organizational goals and the need to ensure that the staff performance appraisal system is properly used to identify training requirements and evaluate achievements of individual staff members (A/58/759, para. 77). The Board of Auditors has confirmed that for some entities in the United Nations system the evaluation of training programmes is inadequate. The measurement and the benchmarking of the effectiveness of training is being carried out, although not extensively. **The Committee agrees with the view that this could impair results-based budgeting and the successful attainment of goals.** The Board also found that the relationship of the performance appraisal system and the training plans was not clear. It confirmed that there is room for improvement in the management and coordination of staff training in order to better align the staff resources of the United Nations with its mission, culture and structure (A/59/5, vol. I, chap. II, paras. 249 (g) and 253).

Consultants

28. The Board of Auditors reiterated its recommendation that the Administration continue to assess and monitor strict adherence to the administrative instructions on hiring, remunerating and evaluating the performance of consultants (A/59/5, vol. I, chap. II, para. 256). The Board found continued lack of compliance by some substantive offices at United Nations Headquarters as well as at offices away from Headquarters and at regional commissions with administrative instructions on consultants and individual contractors. **The Committee remains concerned with the findings of the Board, as indicated in paragraph 255 of its report. This is an area where the Administration needs to develop a strong culture of accountability and to take corrective action to implement the recommendations of the Board as a matter of priority.**

C. Funds and programmes

29. The Board of Auditors issued unqualified opinions for the following organizations of the United Nations system: the International Trade Centre UNCTAD/WTO, the United Nations Children's Fund (UNICEF), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the United Nations Institute for Training and Research (UNITAR), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Environment Programme (UNEP), the United Nations Centre for Human

Settlements (UN-Habitat) and the United Nations University (UNU). For the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and the United Nations International Drug Control Programme (UNDCP), the Board issued unqualified opinions, but drew attention to findings of significant matters, as indicated below (for explanatory notes provided by the Audit Operations Committee on the different types of audit opinions see A/57/439, annex). The Board of Auditors was unable to express an opinion on the financial statements of the United Nations Office for Project Services (UNOPS) for the biennium 2002-2003 as it was unable to obtain adequate assurance on the imprest account balances, inter-office vouchers clearing accounts, inter-fund balances and non-expendable equipment. The Board was also unable to confirm that the value of separation cost was valid, accurate and complete (A/59/5/Add.10, chap. II, summary, and chap. III, audit opinion) (see also paras. 49 and 50 below on the situation in UNOPS).

30. **As can be seen in a number of instances contained in the paragraphs below, there is a general need for funds and programmes to pay strict attention to the full and complete applications of existing resolutions and rules.**

Non-expendable equipment

31. In the case of UNDP, UNFPA and UNOPS, the Board modified its opinion on the financial statements of these organizations, drawing attention to the fact that it was unable to obtain assurance to verify the validity, accuracy and completeness of non-expendable equipment, amounting to $149.3 million for UNDP, $57.5 million for UNFPA and $10 million for UNOPS. The Board also noted weaknesses in the control of non-expendable equipment at the United Nations, UNICEF, UNHCR, UNEP, UNRWA, UNOPS and UN-Habitat. The aggregated value of the non-expendable equipment of the United Nations and its funds and programmes amounted to approximately $1.1 billion as at 31 December 2003, as disclosed in the financial statements of the organizations audited by the Board (A/59/162, paras. 25 and 26).

32. The Advisory Committee remains concerned with the weaknesses in the control of non-expendable equipment, including inventory management, which appear to be of a problem of semi-permanent nature in most organizations of the United Nations system. **The review by the Committee of these issues in various organizations shows that, although in some cases a lack or inadequacy of proper information management systems may have aggravated the situation, it is necessary for the administrations to strictly adhere to the rules, regulations and procedures that have been promulgated and issued.**

Outstanding advances

33. The Advisory Committee notes with concern the continued lack of consistency among organizations in both the accounting treatment of nationally executed expenditure as well as the procedures for accountability. These are issues that have been the concern of the Committee for a number of years (see, for example, A/57/439, para. 26, and A/55/487, paras. 34 and 35). UNDP, UNFPA and UNDCP provide funds to implementing partners through advances recorded as receivable. Expenditures are recorded only when implementing partners submit detailed reports of delivery for the period. Both UNICEF and UNHCR provide direct cash assistance to their implementing partners. Cash assistance has been recorded directly as

expenditure when the funds were transferred to the implementing partners. The Committee is concerned with the balances relating to advances (UNDP, UNFPA and UNDCP) and cash assistance not yet justified from implementing partners (UNICEF and UNHCR) reported by the Board, amounting to about $426.7 million as at 31 December 2003, as well as the level of advances and unjustified cash assistance written off by the organizations, amounting to $20.7 million (A/59/162, para. 41).

34. In the case of UNDP, the lack of assurance that could be obtained by the Board of Auditors regarding the proper utilization of funds provided for nationally executed expenditure also led it to emphasize such concern in its audit report on the UNDP financial statements for the period ended 31 December 2003 (A/59/5/Add.1, para. 115, and chap. III, audit opinion).

35. Detailed information on the modalities of resource transfer of these organizations is contained in the concise summary report (A/59/162, annex IV). The Board has noted that although some organizations, for example UNHCR, have made improvements to monitor cash remittances to implementing partners (see A/59/5/Add.5, chap. II, paras. 70-73), further efforts are needed in most organizations on internal control measures to ensure that funds are utilized in nationally executed projects for the objectives for which they were approved (see, for example, A/59/5/Add.1, chap. II, para. 115). **The Committee agrees with the Board's view that funds and programmes should continue their efforts to harmonize their accounting treatment and procedures and further improve their internal controls with regard to nationally executed programmes (A/59/162, para. 36).**

Inter-agency fund balances

36. The Advisory Committee was informed that, between the accounting records of the United Nations Headquarters and UNDP, there was a difference of $22.43 million in the amount owed to UNDP by the Organization. The Board was unable to examine the reconciling reports for the amount owed to UNDP because the records were not available at United Nations Headquarters. The Committee notes that the discrepancy appeared to be an accumulation of reconciling items over a number of years in the financial statements for technical cooperation activities (A/59/5, vol. I, chap. II, para. 34). **The Committee shares the concern of the Board in paragraph 84 of its report A/59/5/Add.1 that differences between the inter-agency balances of UNDP and the United Nations may be misstated for lack of supporting documentation. The Committee understands that UNDP expects to remedy the situation of reconciliation of inter-agency balances with the implementation of its enterprise resource planning system, the Atlas system, which became effective in January 2004.**

37. In the case of UNFPA, the Board of Auditors modified its audit opinion on the financial statements for the period ended 31 December 2003, indicating that inter-agency balances of UNFPA with United Nations agencies implementing UNFPA-funded projects may not be accurate. Differences in balances between UNFPA and various United Nations agencies were long outstanding and could not be readily explained. **The Committee endorses the view of the Board that the matter should be resolved expeditiously by UNFPA in conjunction with the agencies concerned (see A/59/5/Add.7, chap. II, para. 57, and table 2).** The Committee understands that differences in the inter-fund account with UNDP could be partially

attributable to the legacy systems used by UNFPA. The Committee trusts that, with the implementation of the Atlas system in 2004 (see para. 43 below), such differences in the inter-fund account with UNDP will no longer arise since the postings to the various inter-fund accounts will be performed automatically by the system (A/59/5/Add.7, chap. II, paras. 52 and 53, and chap. III, audit opinion).

End-of-service liabilities

38. As noted in paragraph 15 above, some funds and programmes have made progress in the area of funding of end-of-service liabilities. In 2003, UNICEF established a reserve for after-service health insurance, with an initial amount of $30 million, against a liability evaluated at $182.5 million, and UNDP set aside an accumulated amount of $108 million at the end of the biennium against an estimated liability of $263 million as at 31 December 2003. As was the case for the United Nations mentioned above, the Board of Auditors reiterated its recommendation that the United Nations funds and programmes review the mechanism and targets for providing for liabilities for annual leave, end-of-service and post-retirement benefits (A/59/162, paras. 30-34).

Unliquidated obligations

39. The Board of Auditors reiterated its concern about the extent of continued overstatement of unliquidated obligations in UNHCR and in UNDP-administered funds (for example, UNCDF) where the Board was not provided with valid obligating documents for raising obligations in the books of these organizations (A/59/5/Add.5, chap. II, para. 55, and A/59/5/Add.1, chap. II, para. 68). In the case of UNDCP, the Board modified its audit opinion, drawing attention to the lack of procedures ensuring completeness and timeliness in the recording of field obligations (A/59/5/Add.9, chap. II, paras. 42-47, and chap. III, audit opinion). **The Advisory Committee remains concerned about the levels and validity of year-end unliquidated obligations in several United Nations organizations, which casts a doubt on their validity in the financial statements. The Committee stresses that the administrations concerned must strictly adhere to their own financial rules as well as review their procedures in order to ensure compliance with the accounting standards of the United Nations.**

Information and communications technology

40. As indicated above, the Board of Auditors reviewed the management of the ICT strategies across the United Nations and its funds and programmes focused on the economy and efficiency of the processes that support the ICT strategy. The Advisory Committee has also been concerned with the large number of incompatible ICT solutions in the organizations of the United Nations system, which represent costly investments on the part of Member States. These entities largely have common financial and personnel rules and programmes and activities in the same geographical areas. The Joint Inspection Unit has also indicated in its report (A/58/82) that multiple solutions of ICT represent substantial expenditures, estimated to be in the range of about $1 billion over the last decade. Moreover, some agencies (for example, UNHCR) have not clearly documented the investment in ICT for the period 1994-2003 (A/59/5/Add.5, chap. II, para. 143).

41. The Board of Auditors has confirmed the need for greater inter-agency cooperation on ICT matters, particularly in the light of the commonality under the United Nations system (A/59/162, para. 96). At present, only a few organizations of the United Nations system have documented ICT strategies; there is no United Nations system-wide formal method for the evaluation of ICT investments and expenditures; and the system does not have a comprehensive view or the total cost of ICT (A/59/162, paras. 97 and 99). No common solution has been sought among the various entities with a significant number of field offices. For example, peacekeeping operations have implemented IMIS; UNICEF implemented its own enterprise resource planning solution at its headquarters (with a separate system for the field offices) several years ago; UNHCR developed and implemented its own enterprise resource planning system in relative isolation from other United Nations entities (A/59/5/Add.5, paras. 135 and 144-147); and, as mentioned below, UNDP, UNFPA and UNOPS are beginning to implement the Atlas system. The Committee was informed that organizations often claim that their state of IT development, needs, "business model", governance and standards might not be relevant or cost-effective for another organization. Because they have a perceived need for custom development to support specific processes and rules, they have not shared, to a significant degree, economies of scale or returns on experience, which could have already occurred at the development stage.

42. On the positive side, the Committee was informed that the ICT Network created recently as part of the High-Level Committee on Management of the United Nations Chief Executives Board for Coordination has adopted some initiatives towards the implementation of a United Nations Extranet and search engine, as well as towards common approaches on information security, procurement and knowledge-sharing. **The Committee joins the Board in its recommendation that a more proactive approach needs to be taken in the coordination of ICT efforts in the United Nations and its funds and programmes to ensure that the approach taken is cost-effective and meets the requirements of organizations and other Member States (A/59/162, para. 118).**

43. In January 2004, UNDP, in partnership with UNFPA and the United Nations Office for Project Services, began to implement the Atlas system. This enterprise resource planning system has introduced new technologies aimed at streamlining processes and assisting in changing environments for managing information and replacing a proliferation of often non-compatible legacy systems. In the recent past, the Committee was briefed on the implementation of the Atlas system at UNDP and on the tools available in the system to enhance UNDP's ability to manage financial, project and human resources data. The Committee notes that, although progress has been made by these organizations in introducing the Atlas system, the Board of Auditors modified its audit report on the financial statements of UNDP, UNFPA and UNOPS, drawing attention to the finding that there were internal control deficiencies and, in particular, no independently validated internal control framework for the system, which would adequately mitigate its control risk (see A/59/162, paras. 109 and 110).

Human resources

44. The Advisory Committee recalls that the authority to approve and modify the United Nations staff regulations rests with the General Assembly and the authority to issue and effect changes in the staff rules with the Secretary-General. The

Committee has, however, pointed out that in the latter case the General Assembly exercises legislative oversight over all personnel matters, including the staff rules (see General Assembly resolution 37/235 C of 21 December 1982 and the report of the Advisory Committee A/37/675). **The Advisory Committee shares the concern of the Board of Auditors that UNICEF has continued to apply a special operations living allowance created by a former UNICEF Executive Director.** The Board found that the expenditure for this allowance doubled to $6.9 million during the biennium 2002-2003, partly due to deviations from the United Nations mission subsistence allowance. **The Committee endorses the recommendation of the Board that UNICEF should consistently apply the Staff Regulations and Rules of the United Nations, including allowance schemes.**

45. While most organizations of the United Nations system have drafted rotation policies, in general they have not applied them consistently. With regard to performance appraisal systems, although progress has been made, there is no system-wide common practice. **The Committee shares the concern of the Board that, where appropriate, efforts should be made by the organizations of the United Nations system to consistently implement their staff rotation and appraisal policies, avoiding the risk of an adverse impact on staff efficiency and effectiveness (A/59/162, paras. 124-126).**

Consultants

46. Several organizations continue to show weaknesses in the implementation of their policies and procedures regarding utilization of consultants, experts and temporary assistance personnel. These include weaknesses in the hiring and reviewing and monitoring performance. In some organizations, performance evaluations were not always completed for consultants contracted under special service agreements. In others, a number of consultants were utilized to perform regular staff functions and time frames for the accomplishment of tasks were not always defined. Moreover, instalment payments to consultants were not always supported with progress accomplishments reports and payments were made to consultants without contracts being signed by either party (see A/59/162, paras. 138-142). **The comments of the Committee, as indicated in its comments on the United Nations Secretariat in paragraph 28 above, are equally applicable to the funds and programmes. The organizations of the United Nations system must develop a culture of accountability and comply with the Staff Rules and Regulations of the United Nations and established procedures for hiring, remunerating and evaluating the performance of consultants.**

Travel

47. The Advisory Committee was informed that some organizations incur financial losses due to non-compliance with their travel policies and procedures, in particular as a result of weaknesses in travel planning and late submission of travel requests and travel claims to settle travel advances. In one organization travel claims to settle travel advances were submitted late, between 30 and 90 days after completion of the travel. In some cases travel claims were only completed following the Board's audit, even though the travel had been undertaken earlier in the year. **The Committee strongly supports the recommendation of the Board of Auditors that organizations should monitor the timely submission of travel claims, follow up on outstanding claims to fully recover all travel advances and, as appropriate,**

refrain from authorizing additional travel advances if previous travel claims have not been submitted (A/59/5/Add.7, chap. II, paras. 239-246).

United Nations House initiative

48. **The Advisory Committee is concerned that at present UNHCR does not have a clear picture of the numerous buildings it uses worldwide and that no proactive policy has been put in place to comply with the United Nations instructions on common premises at the country level, whenever feasible.** Currently, UNHCR owns only two field offices buildings, among its more than 200 field locations, and has no policy regarding purchase of premises as opposed to renting them. UNHCR has status as a unit of the Secretariat of the United Nations and the relevant provisions of General Assembly resolutions apply without the need for any submission to its governing body (see A/59/5/Add.5, chap. II, paras. 128-130). The Committee has recently reviewed the UNHCR programme budget for 2005 and has brought to the attention of the Executive Committee of UNHCR the recommendations of the Board of Auditors regarding the need to comply with the directives of the United Nations with regard to common premises in the field.

The situation of the United Nations Office for Project Services

49. In addition to being unable to express an opinion on the financial statements of UNOPS for the biennium 2001-2003 for the reasons indicated above, the Board of Auditors also emphasized its concern that UNOPS may not be able to fund any future deficit in full from its operational reserve owing to its weak financial position as at 31 December 2003 and the possibility that it may not be able to meet its 2004 targets. In the view of the Board, the ability of UNOPS to continue as a going concern is dependent on many variables, including the extent of the increase in the cost of the Atlas system, change management costs and further materially unfavourable currency fluctuations. UNDP, which has continued to be the largest client of UNOPS, decreased its outlay to the Office by 18 per cent, from $61.5 million in 2000-2001 to $50.2 million in 2002-2003 (see A/59/5/Add.10, chap. II, summary, and paras. 40 and 41 and figure 2).

50. The Advisory Committee takes note of the progress report of the Executive Director on the activities of UNOPS submitted to the second regular session 2004 of its Executive Board (DP/2004/45). In his report, the Executive Director outlines the initiatives that will be taken to comply with the recommendations of the Board (ibid., paras. 10 and 11). UNOPS will present an action plan, including an update on progress in its implementation, at the January 2005 session of the Executive Board. **The Committee intends to revert to these issues in the context of its review of the biennial budget of UNOPS for the biennium 2006-2007.**

The Provident Fund of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

51. The Provident Fund is a scheme established in 1955 by the Commissioner-General, and placed under the administration of UNRWA's Treasurer, for the purpose of providing benefits to eligible local staff members upon their separation from service. In its report on the accounts of UNRWA for the biennium ended 31 December 2003, the Board of Auditors commented in detail on weaknesses in the operations of the UNRWA Provident Fund and made recommendations to address

shortcomings in the management of the Fund (see A/59/5/Add.3, chap. II, paras. 105-145). **The Committee endorses the recommendations of the Board that the Provident Fund should expedite the finalization of a consolidated set of regulations and rules and take immediate steps to correct the deficiencies in the Fund's management mentioned in the findings of the Board.**

Annex I

Reports of the Board of Auditors

(Period ending 31 December 2003)

Organization	*Document symbol*
United Nations	Supp. No.5 (A/59/5), Vol. I
International Trade Centre UNCTAD/WTO	Supp. No.5 (A/59/5), Vol. III
United Nations University	Supp. No.5 (A/59/5), Vol. IV
United Nations Development Programme (UNDP)	Supp. No.5A (A/59/5), Add.1
United Nations Children's Fund (UNICEF)	Supp. No.5B (A/59/5), Add.2
United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)	Supp. No.5C (A/59/5), Add.3
United Nations Institute for Training and Research (UNITAR)	Supp. No.5D (A/59/5), Add.4
Voluntary Funds administered by the United Nations High Commissioner for Refugees (UNHCR)	Supp. No.5E (A/59/5), Add.5
Fund of the United Nations Environment Programme (UNEP)	Supp. No.5F (A/59/5), Add.6
United Nations Population Fund (UNFPA)	Supp. No.5G (A/59/5), Add.7
United Nations Human Settlements Programme (UN-Habitat)	Supp. No.5H (A/59/5), Add.8
Fund of the United Nations International Drug Control Programme (UNDCP)	Supp. No.5I (A/59/5), Add.9
United Nations Office for Project Services (UNOPS)	Supp. No.5J (A/59/5), Add.10
International Criminal Tribunal for Rwanda	Supp. No.5K (A/59/5), Add.11
International Tribunal for the Former Yugoslavia	Supp. No.5L (A/59/5), Add.12
United Nations Joint Staff Pension Fund[a]	Supp. No.9 (A/59/9)
Capital master plan	A/59/161
Concise summary of the principal findings, conclusions and recommendations of common interest, classified by audit area, contained in its report prepared by the Board of Auditors for the General Assembly	A/59/162

[a] The Board also examined the accounts of the United Nations Joint Staff Pension Fund. The audit report thereon will be included in the report of the United Nations Joint Staff Pension Board.

Annex II

Liabilities for annual leave, end-of-service and post-retirement benefits

(In millions of United States dollars)

Organization	*Annual leave*	*Repatriation*	*After-service health*	*Total*
International Criminal Tribunal for Rwanda	8.3	6.0	13.1	27.4
International Tribunal for the Former Yugoslavia	5.2	4.8	9.4	19.4
International Trade Centre UNCTAD/WTO (ITC)	2.2	5.3	31.2	38.7
United Nations	105.0	95.0	1 484.0	1 684.0
United Nations Compensation Commission	1.6	3.1	0.5	5.2
United Nations Human Settlements Programme (UN-Habitat)	Not available	Not available	Not available	-
United Nations International Drug Control Programme (UNDCP)	Included in repatriation	9.6	1.3	10.9
United Nations Development Programme (UNDP)	21.5	22.8	263.2	307.5
United Nations Environment Programme (UNEP)	Not available	Not available	Not available	-
United Nations Population Fund (UNFPA)	6.4	7.3	69.5	83.2
Office of the United Nations High Commissioner for Refugees (UNHCR)	47.0	250.0	256.0	553.0
United Nations Children's Fund (UNICEF)	33.0	33.9	182.5	249.4
United Nations Institute for Training and Research (UNITAR)	0.3	0.5	0.9	1.7
United Nations Office for Project Services (UNOPS)	2.1		37.6	39.7
United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)	See total	See total	See total	147.3
United Nations University	1.4	1.7	1.7	4.8
Total	**234.1**	**440.1**	**2 350.9**	**3 025.0**